# POLICY PENNINGS

By Daryll E. Ray

# Current commodity programs: Are they for the producers or the users?

As we know, under current farm policy, up to half of the total US net farm income has come from government payments in recent years. In some grain-dominated farm-states government payments have equaled or exceeded net farm incomes on occasion.

It's no mystery why this has occurred. The 10 to 15 million acres that were periodically "set-aside" became permanently available for production with the 1996 farm bill. During the discussion of the bill, some were claiming that farmers would idle land on their own since "farmers would receive the decoupled payments whether or not they produced on the land."

That, of course, was an incredulous expectation. Farmers and others who understand how agriculture operates knew what to expect: in the main, farmers would farm every square foot available to them irrespective of whether the land had previously been part of a set-aside, 0/92 or any other land diversion program. That is just the way it is.

As a result, prices plummeted and government payments were provided to help fill the gap.

In presentations, I often point out that this policy of all-out-production, with no regard for market needs, is a boon for users of grain and other crop. Crop agriculture is providing integrated livestock producers, millers and other processors, and importers with one of their most important raw-material inputs at a 40 to 50 percent discount with Uncle Sam picking up the difference. Furthermore, agribusinesses sell the seed, fertilizer, herbicides, transportation, handling and other goods and services required to keep crop agriculture producing at full tilt.

The obvious conclusion is that it's the grain users and agribusinesses who are the real beneficiaries of today's government check-writing version of commodity programs, not crop farmers. Crop farmers could receive the same net income as now by producing less and receiving their revenue totally from the market.

Then grain users and agribusinesses would have to pay closer to the full-cost of production for grains, and the sales of inputs and other goods and services by agribusiness would settle down from their inflated levels.

This is a result that most economists would usually applaud but, in this case, are dead set against because actions would have to be taken to cut crop-production. They give a thumbs-up however when Sony announces plans to reduce production of TV sets by "setting aside" workers and production facilities as means to increase Sony profits and ultimately the value of 401Ks.

Of course, it would be preferable if crop farmers themselves could individually throttle production to better meet market needs. Since the absurdity of that is evident to all by now, second best solutions require collective action that could be farmer-run but have usually been administered as part of farm legislation

If the intended major beneficiaries of the recent farm policies were the large integrated livestock producers, grain importers and multinational agribusinesses, kudos to the designers. If not, it may be time to rethink agricultural policy.

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